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Companies That Fought Cities On Wi-Fi, Now Rush to Join In

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Having tried to stop cities from offering cut-rate or free wireless Internet access to their citizens, some large phone and cable companies are now aiming to get into the market themselves.

Telecom and cable giants have traditionally been critical of city-sponsored broadband initiatives, questioning their financial viability and, in some cases, even pushing for state laws to bar or restrict them. Now, in an effort to compete with similar initiatives by **Google** Inc., **EarthLink** Inc. and others, some of the companies are changing their tune.

AT&T Inc., the nation's largest telecom provider, put in a bid March 7 to build a wireless Internet service for Michigan's Washtenaw County with roughly 325,000 residents. Among cable providers, Cox Communications recently teamed up with two companies to offer wireless Internet access in some Arizona cities, and **Time Warner** Inc.'s Time Warner Cable has signaled interest in Texas.

Experts say the companies were forced into the shift in strategy. "It's inevitable that municipal wireless is going to become prevalent in cities large and small," said Craig Settles, author of the book "Fighting the Good Fight for Municipal Wireless." "That can't be ignored. I don't care how much you dislike it as a telco incumbent. You just can't get away from this wave."

Cities and small localities across the country have started offering their residents cheap or even free access to the Internet either because their areas aren't reached by regional telecom providers or because the available offerings in their areas are too pricey.

More than 50 municipalities around the country have already built such systems, and a similar number are at some stage in the process, including Philadelphia, Chicago, San Francisco and Houston, according to Esme Vos, founder of the Web site

www.muniwireless.com[1], which tracks such projects nationally. By 2010, ABI Research forecasts a $1.2 billion market for the wireless technology used in the city systems.

Most of the municipal networks use the same wireless technology, Wi-Fi, that provides Internet "hotspots" at coffee shops and airports. Small radio transponders are deployed on public buildings, street lamps, and streetlights, creating a network that consumers can connect to with their laptops almost anywhere in a city. That network itself is connected to the Internet. The cities often charge users around $15 a month for the service, though cities such as St. Cloud, Fla., are opting for free access. That compares with cable broadband bills that typically run around $40. DSL services from the large phone companies can run as low as $15 a month for slower speeds, but speeds closer to cable are roughly $30.

Those economics are a real threat to the large telecom and cable companies, which is why they initially fought hard to stop city-based networks. But the telecom companies' recent regulatory efforts have been unsuccessful. AT&T, for example, lost a battle in the Texas state legislature last year and another last week in Indiana. Last year, of the 14 pieces of legislation the telecom companies backed in states, they scored only one victory, in Nebraska, according to James Baller, a senior principal at the Washington-based Baller Herbst Law Group, which has represented local governments on telecom issues.

The telecom providers had scored some successes in the past. **Verizon Communications** Inc. won passage of a law in Pennsylvania in late 2004 that would prevent cities in the state from offering paid Internet access unless regional telecom providers refused to offer such service. Philadelphia was exempted from the law. Several other states, including Missouri, Nevada, and Tennessee, have laws restricting municipalities from offering telecom services in order to prevent the government from competing with the private sector.

As they wage those regulatory battles, the large telecom and cable companies are watching competitors jump in to offer municipal-based Wi-Fi services. EarthLink inked a deal with Philadelphia on March 1 to offer service there by putting radio transponders on 4,000 of the city's street lamps. The service will be about $10 a month for low-income people, $20 a month for the general public. The company is bidding in a partnership with Google in San Francisco to offer a service that would be free at slow speeds, and would go for a moderate fee at higher speeds. EarthLink said it has plans to enter many more cities, and many analysts speculate Google has the same strategy. A number of smaller Internet providers have also entered the fray.

The move to enter the municipal market represents a shift for the major players. Many argued that cities were throwing taxpayer money down the drain with these projects because they would never make enough money to recoup the initial investment. Now some of the major telecom and cable companies are ready to lay their own money on the line.

AT&T is working with Tropos Networks, a leading provider of the technology needed for municipal wireless networks, and **IBM** Corp., in Washtenaw County, Michigan. The company would have to offer at least five hours of free service per month at DSL-like speeds, and unlimited free access at slower speeds, city officials say.

AT&T, which is also bidding in Michigan's Genesee County, isn't anxious to offer a cut-rate or free service that could siphon off some of its DSL broadband customers, analysts say, but would rather cannibalize its own business than watch someone else snatch it away. If municipal governments are "looking to establish a Wi-Fi network like this, we're certainly willing to work with them, wherever it's a good fit to do so," said AT&T spokesman Jason Hillery. "This isn't something we're actively recommending to customers."

For cable providers, there is an upside, analysts say. Cable companies need a quick way to enter the wireless market. They have made some progress through a joint venture with **Sprint Nextel** Corp. that will allow them to market some wireless services later this year, but municipal networks would open up more opportunities. For example, they could allow their cable broadband customers, for an add-on fee, to keep their Internet connection active outside their home by accessing the city wireless network.

For the cable companies, "I think it really comes down to retaining the customer, and making sure if there's going to be a wireless broadband component as part of your portfolio, you can at least charge five or ten bucks incremental per month for it," says Rick Rotondo, director of marketing for the division of **Motorola** Inc. that provides Wi-Fi equipment used in city networks.

Time Warner Inc. made a bid to build out a municipal wireless project in Dublin, Ohio, and is now talking to the city of Corpus Christi, Texas, about becoming a re-seller of wireless Internet services there, a city official said. The city already provides wireless access to public safety personnel but is considering a broader rollout to the public. AT&T has also signaled interest to Corpus Christi, the official said.

Comcast Interactive Capital, the venture capital arm of cable provider **Comcast** Corp., has invested in BelAir Networks, a Canadian company that provides wireless Internet technology for cities. BelAir also developed a product that would allow cable companies to hang radios on their own cable lines, rather than having to pay for access to city light posts and other infrastructure. Comcast has not announced plans to deploy wireless networks in cities.

To be sure, both the phone and cable companies say what they have opposed is having to compete with publicly owned or operated services that have access to municipal subsidies or other advantages. They say they have been more open to having local governments facilitate projects by giving out contracts to companies, which is the tack municipalities are increasingly taking.

Tempe, Ariz., a city of roughly 160,000 residents, for example, contracted with the Maryland-based Internet provider MobilePro, which in turn partnered with Cox and technology provider Strix Systems, to build a public wireless network. The cable companies deny that their efforts represent a shift in strategy. "What you're seeing happen here is different than what the industry and Cox has been opposed to historically," said Ivan Johnson, vice president of community relations for Cox's Arizona operations.

Large cable and phone companies are still in the early stages of experimentation with municipal networks, and are looking for ways to make it work financially, analysts say. "The jury is still out as to how viable this business will be going forward," said Miles Lee of the telecom consultancy Adventis. "It hasn't been proven yet